



## Summary

**Real economy:** Economic data was strong for February, reflecting the impact of the late January royal decrees. Cash withdrawals from ATMs recorded a significant monthly increase in response to the two month's salary bonus.

**Government finance:** In February, government deposits and reserves fell by a total of \$35 billion (SR 130 billion), an all time high monthly withdrawal.

**Money supply:** Money supply grew at its fastest monthly rate in 26 months as the elevated level of government spending was felt through the domestic economy.

**Banking indicators:** Bank lending to the private sector recorded healthy growth in February. The loan-to-deposit ratio fell back to 79.4 as a result of strong growth in deposits.

**Consumer lending:** SAMA introduced changes to consumer lending data, both current and historical, to correct for data on real estate lending, financial leasing, and margin lending.

**Inflation:** CPI slowed for the sixth consecutive month. Both the core index and foodstuffs continued to slow while housing inflation rose.

**Trade:** The value of non-oil exports continued to decline in January both in monthly and year-on-year terms, but volumes exported showed a monthly increase, mostly indicating a lower price effect.

**Oil –Global:** Oil prices were down marginally, month-on-month, in March as ample global supply continued to weigh down both WTI and Brent.

**Oil –Regional:** Saudi crude production remained unchanged, month-on-month, in February, at 9.6 mbpd.

**Exchange rates:** The increased likelihood of the US Federal Reserve raising interest rates in the near future pushed the value of the dollar up against most currencies.

**Stock market:** The TASI was down in March partly due to persistently low oil prices.

**Volumes:** Average daily turnover declined by 4.8 percent in March, reflecting more subdued investor activity.

**Valuations:** A sell off by investors in March saw the TASI's price-to-earnings (PE) valuation move towards the two year average.

**Sectoral performance:** Most sectors saw negative performance in March.

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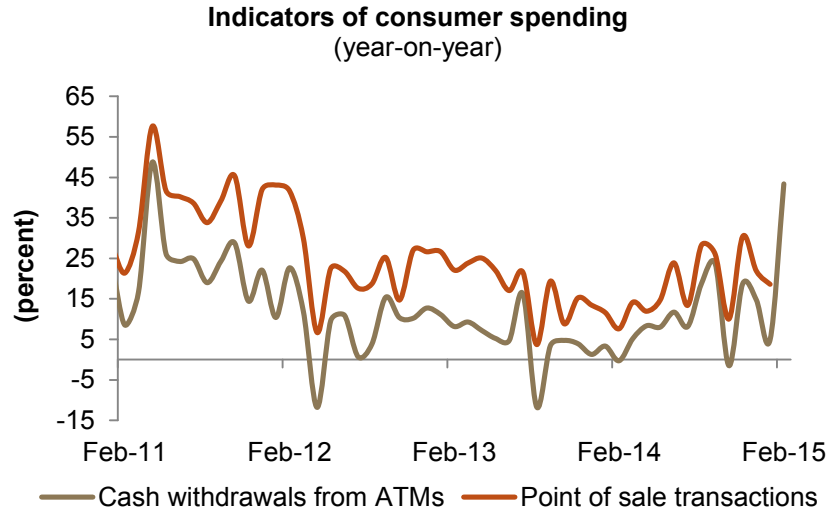
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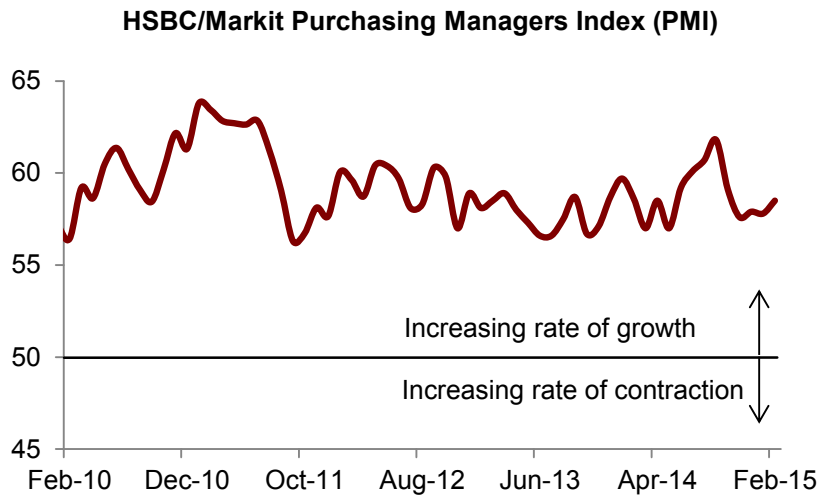
## Real Economy

Economic data was strong for February, reflecting the impact of the late January royal decrees. Cash withdrawals from ATMs recorded a significant monthly increase in response to the two month's salary bonus. PMI points to a healthy expansion in the non-oil sector. Both cement production and sales enjoyed a strong start to 2015.

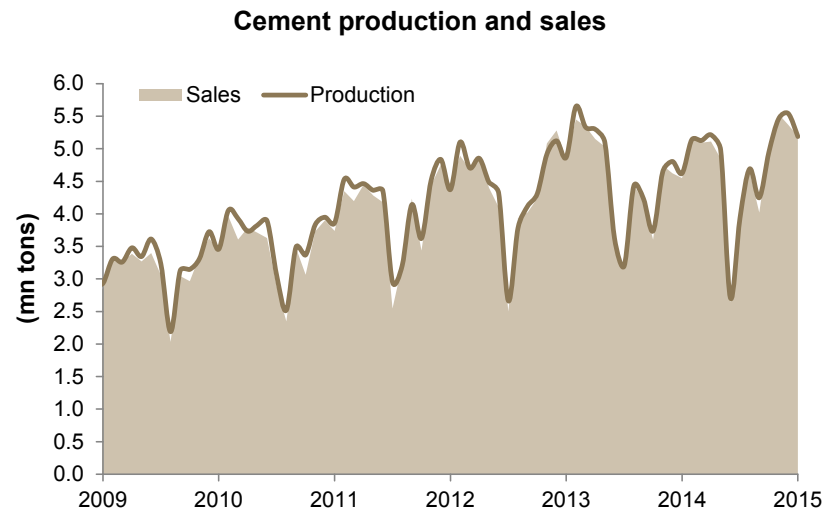
*Following the two months' salary bonus, cash withdrawals from ATMs grew by 43.4 percent year-on-year, its fastest since April 2011, when a similar bonus was also announced.*



*PMI rose to 58.5 in February, reflecting a strong start to non-oil private sector activity in 2015.*



*Cement production and sales enjoyed a strong start to 2015, with February production and sales up by 14.1 percent and 12.2 percent year-on-year respectively, despite a seasonal monthly slowdown.*



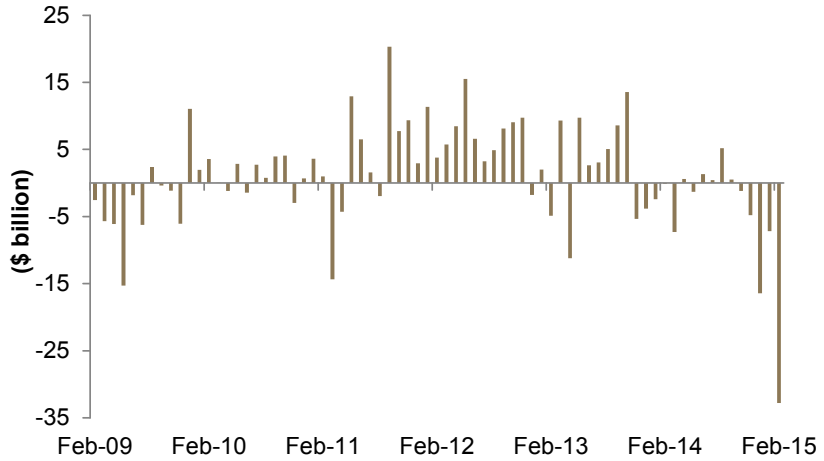


## Government Finance

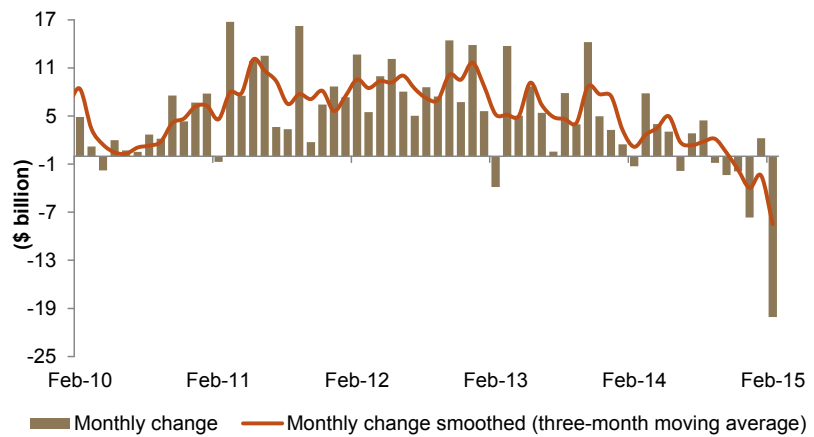
In February, government deposits and reserves fell by a total of \$35 billion (SR 130 billion), an all time high monthly net withdrawal, indicating that the government remains committed to maintaining a high level of spending. The elevated spending was partially financed by a drawdown from foreign reserves, which fell by \$20 billion in February while January oil revenues fell to their lowest level since May 2009.

*During February, government deposits and reserves fell by \$8 billion (SR30 billion), and \$27 billion (SR100 billion) respectively. While the projects account recorded a monthly increase, indicating slower activity in capital spending.*

**Government accounts with SAMA**  
(month-on-month change)

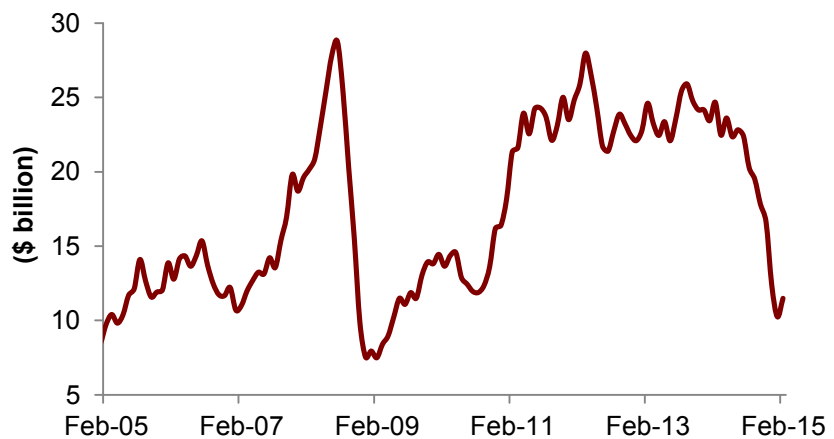


**Change in foreign reserves**



*Foreign reserves fell by \$20 billion in February, which were probably used to finance additional government spending during the period...*

**Oil export revenues**  
(Jadwa Investment estimates)



*...while oil revenues - estimated at \$11.5 billion in February- were not sufficient enough to mitigate the impact of higher spending on foreign reserves.*

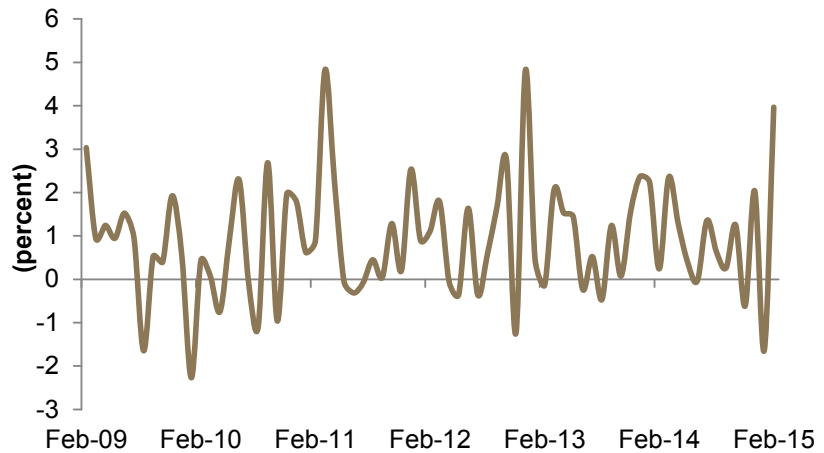


## Money supply

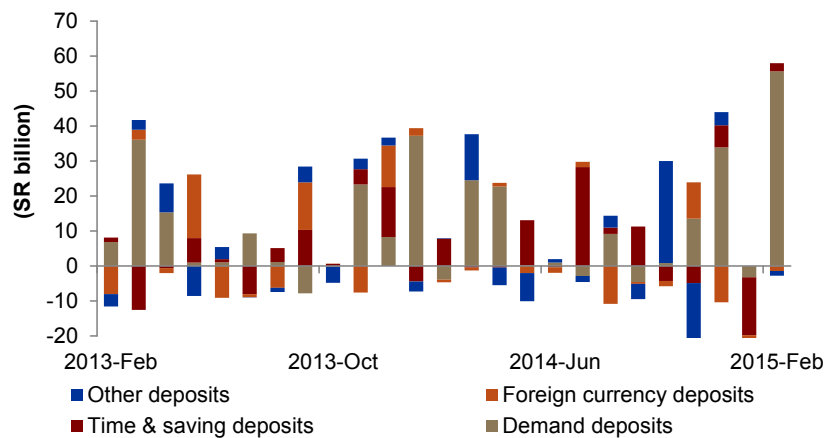
Money supply grew at its fastest monthly rate in 26 months as the elevated level of government spending was felt through the domestic economy. Deposits increased significantly as a result of the two-months salary bonus, while currency outside banks also grew at its fastest rate since August, 2011.

*M3 grew by 4 percent, month-on-month, its fastest in two years, reflecting the elevated level of government spending in the domestic economy.*

**M3 growth**  
(month-on-month change)

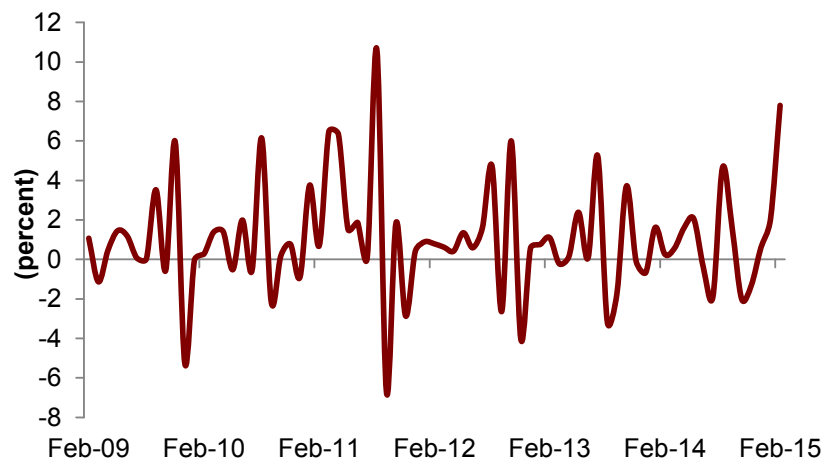


**Deposits in the banking sector**  
(month-on-month change)



*Deposits also increased significantly in February, with demand deposits growing by 5.6 percent, also the highest month-on-month growth in two years, boosted by the two-month salary bonus...*

**Currency outside banks**  
(month-on-month change)



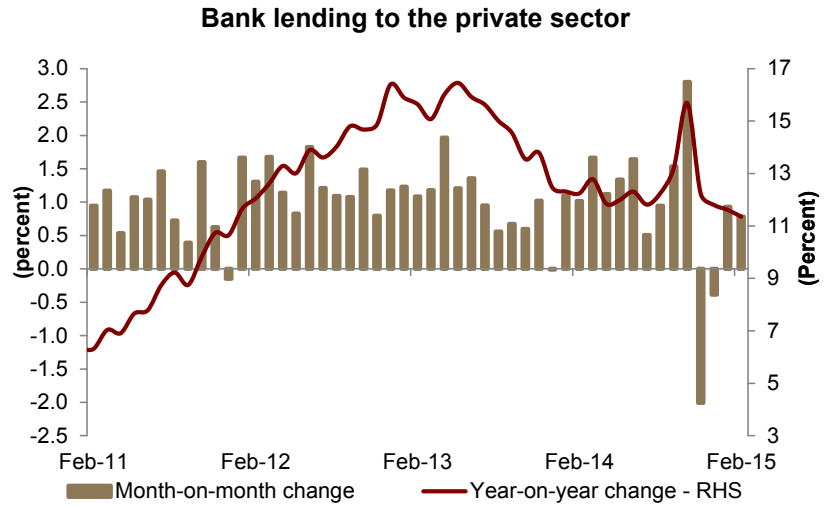
*... while the high level of liquidity was also reflected in currency outside banks, growing by 7.8 percent, month-on-month in February, the highest monthly growth since August, 2011.*



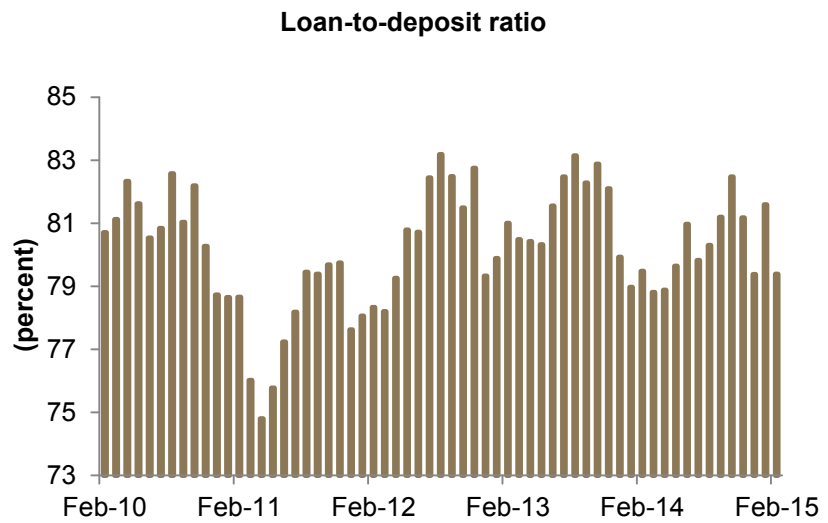
## Banking indicators

Bank lending to the private sector recorded healthy growth in February. The loan-to-deposit ratio fell back to 79.4 as a result of strong growth in deposits. We expect banks to increase their holdings of SAMA bills in coming months as the excess liquidity resulting from the recent government spending gets absorbed.

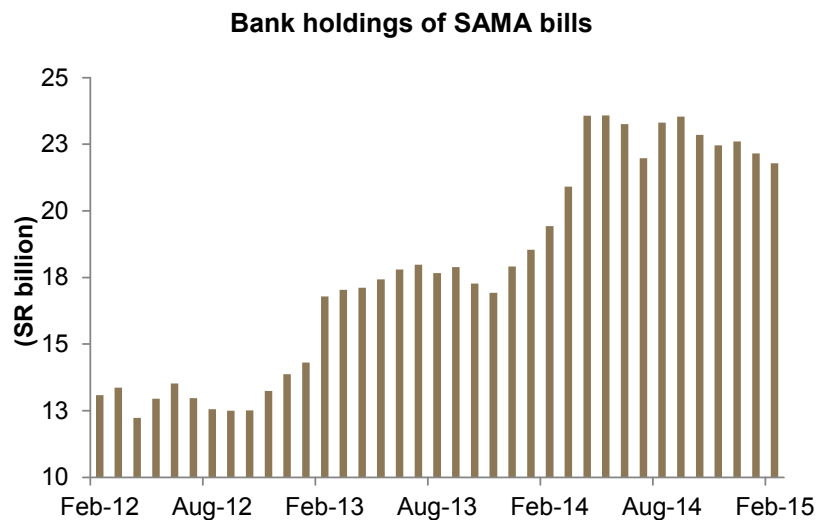
*Bank lending to the private sector recorded healthy growth in February, growing by 0.8 percent month-on-month, and 11.4 percent year-on-year...*



*...but the high growth in deposits caused the loan-to-deposit ratio to fall back to its December 2014 level, at 79.4.*



*Bank holdings of SAMA bills fell for the third consecutive month in February. Nonetheless, we expect bank holdings of SAMA bills to rise in coming months to absorb the excess liquidity in the economy.*





## Consumer lending reclassification

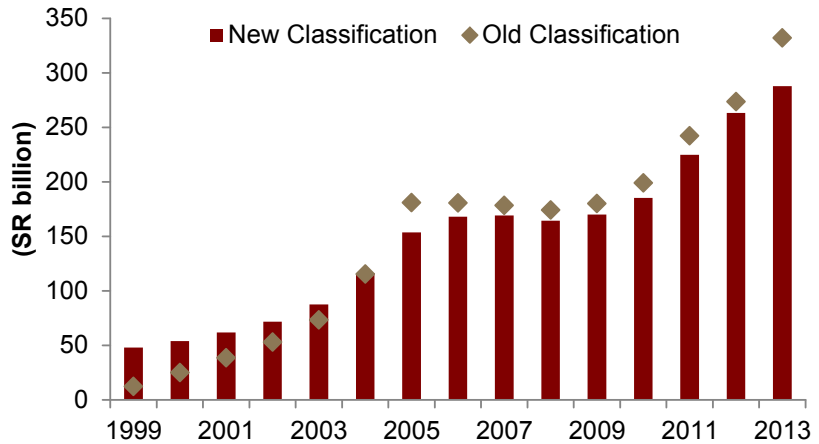
SAMA introduced changes to consumer lending data, both current and historical, to correct for data on real estate lending, financial leasing, and margin lending. As a result, total consumer loans are now lower for each of the nine years (2005-2013), with the gap widening to its greatest extent in 2013.

*Under the new classification, real estate lending, financial leasing, and margin lending have been excluded from consumer loans.*

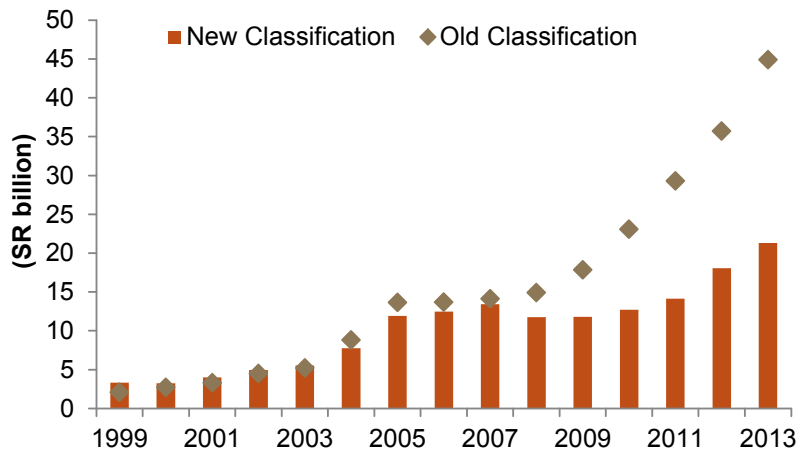
*The new data now excludes real estate financing from the renovation and home improvement category, causing the new total value of renovation and home improvement loans to fall significantly in recent years.*

*The exclusion of financial leasing also means that the cars and automobile loans category is now lower. The difference between old and new data in this category widened in recent years to reach SR27 billion in 2013.*

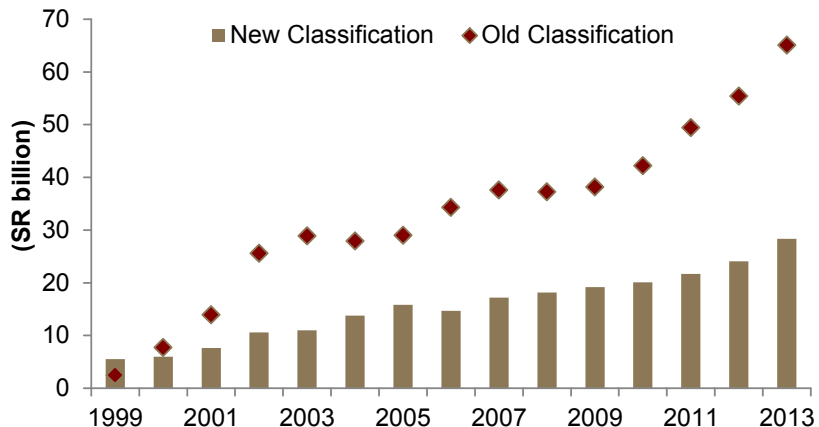
**Total consumer loans**



**Renovation and home improvement loans**



**Cars & automobile loans**

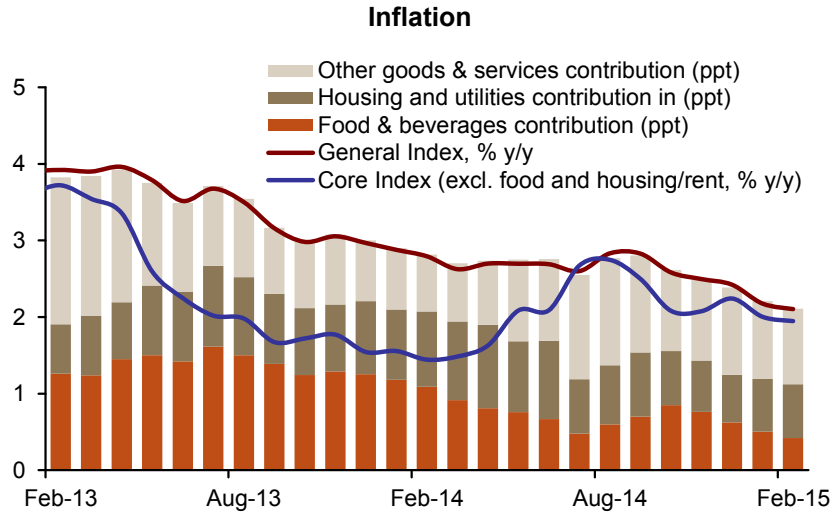




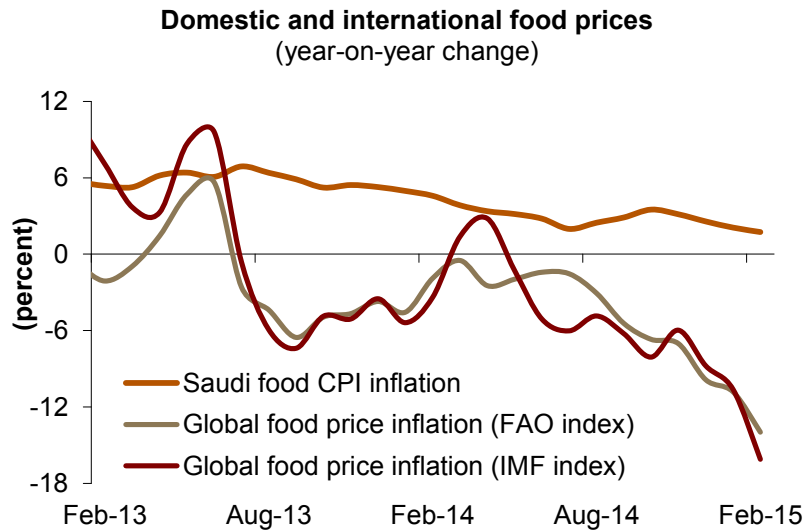
## Inflation

CPI slowed for the sixth consecutive month. Both the core index and foodstuffs continued to slow while housing inflation rose. Foodstuffs continued to slow as international food prices continued their deflationary trend. The acceleration in housing inflation was mainly pushed by a rise in rentals for housing.

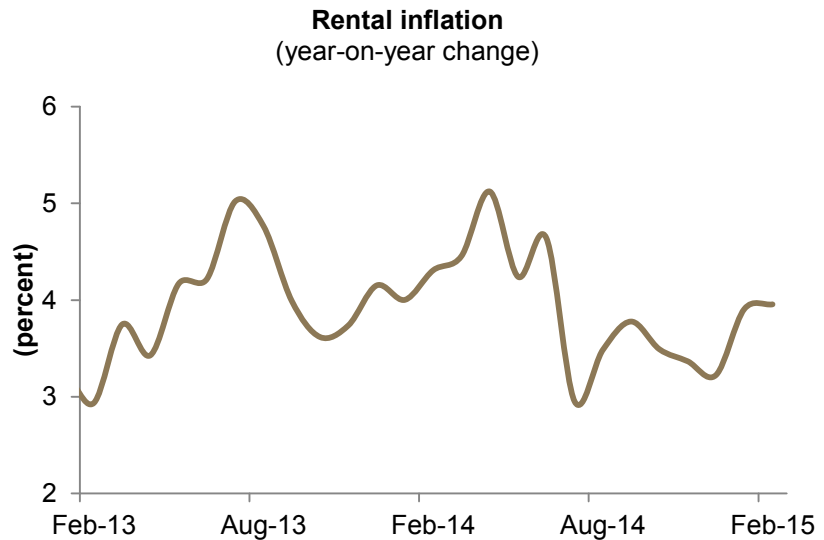
*CPI slowed for the sixth consecutive month, reaching 2.1 percent year-on-year in February.*



*Foodstuffs slowed to 1.7 percent, year-on-year, as international food prices continued their deflationary trend...*



*.. while housing inflation rose, pushed by rental inflation, which accelerated to 4 percent, year-on-year.*

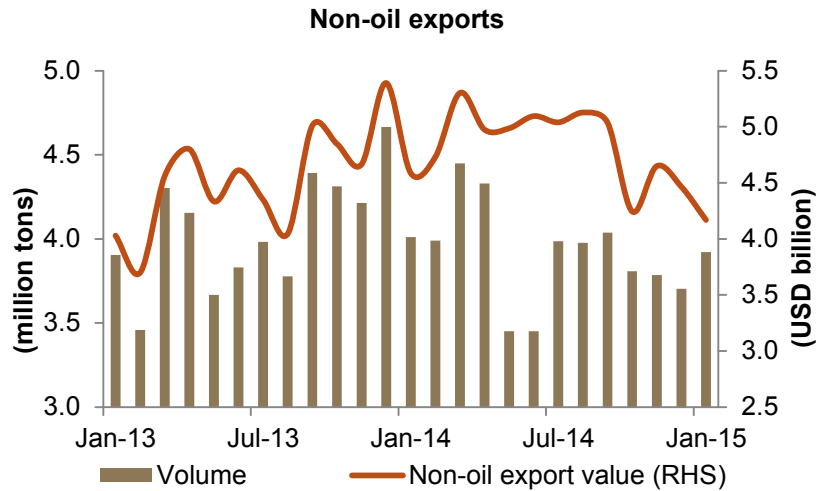




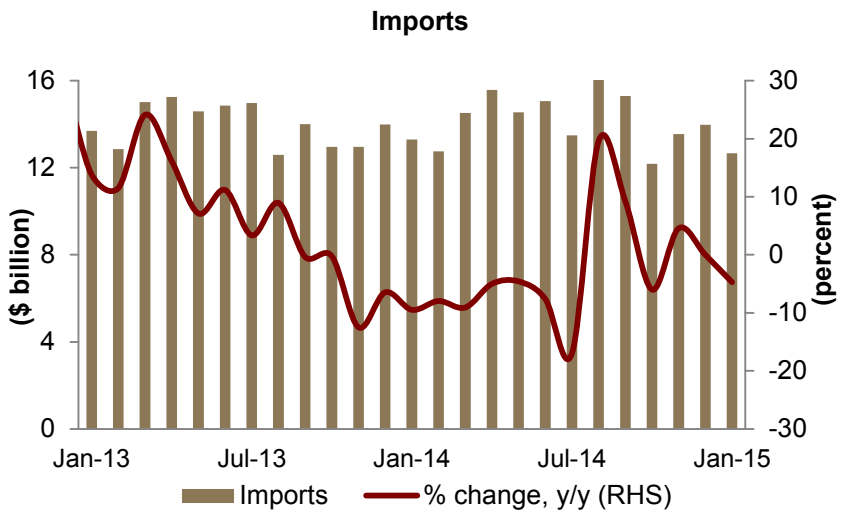
## Trade

The value of non-oil exports continued to decline in January both in monthly and year-on-year terms, but volumes exported showed a monthly increase, mostly indicating a lower price effect. While imports have shown a decline, the value of new LOCs opened point to a stable level of imports in coming months.

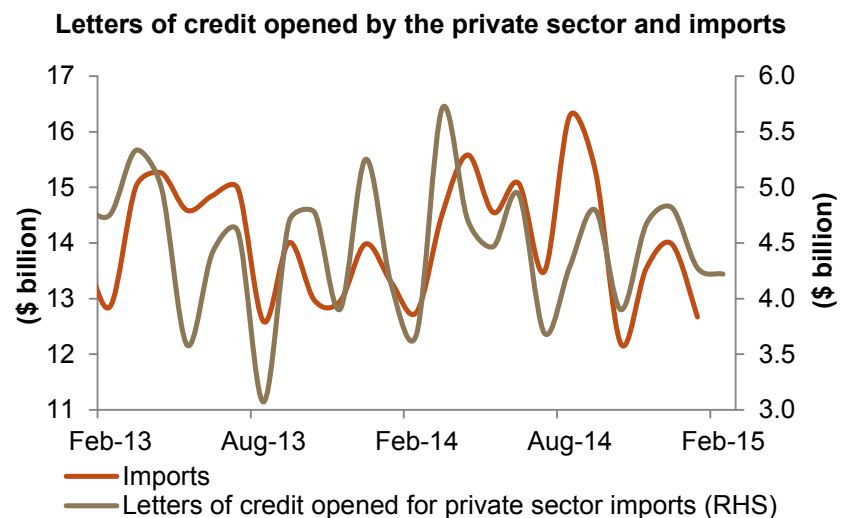
*The value of non-oil exports continued to decline in January, reflecting the impact of lower prices, since volumes exported recorded a monthly increase from 3.7 million tons in December to 3.9 million tons in January.*



*Value of imports have also recorded a decline in both monthly and year-on-year terms. January imports declined by 9.4 percent month-on-month and 9.1 percent year-on-year.*



*While imports recorded a decline, new LOCs opened point to a stable level of imports in coming months.*



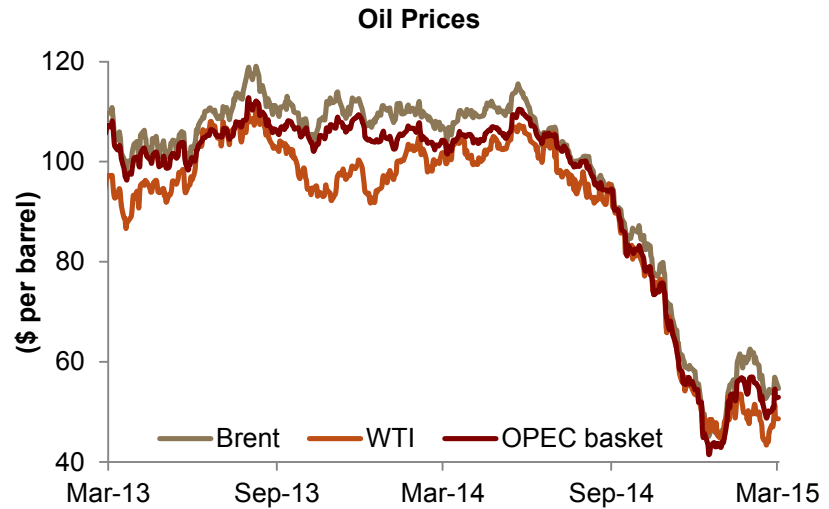




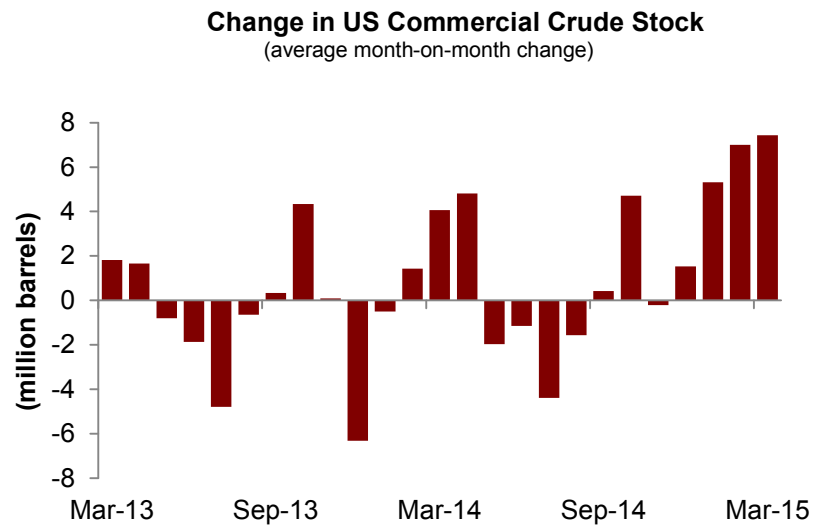
## Oil - Global

Oil prices were down marginally, month-on-month, in March as ample global supply continued to weigh down both WTI and Brent. Brent averaged \$56 per barrel in March compared to \$58 per barrel a month earlier. US oil production continued to outweigh domestic demand leading to continued growth in commercial crude stocks.

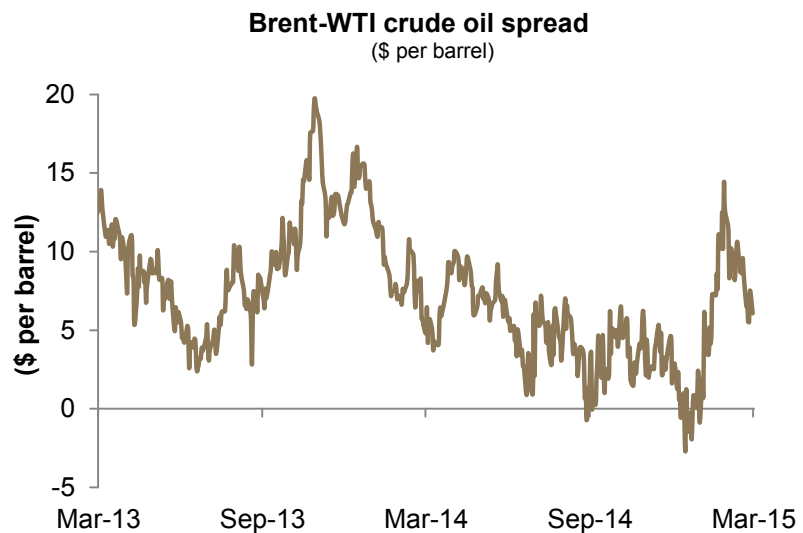
*Global oil prices remained depressed in March.*



*High production levels in the US combined with an export ban pushed commercial crude stocks to record levels...*



*...resulting in a widening of the spread between Brent and WTI.*



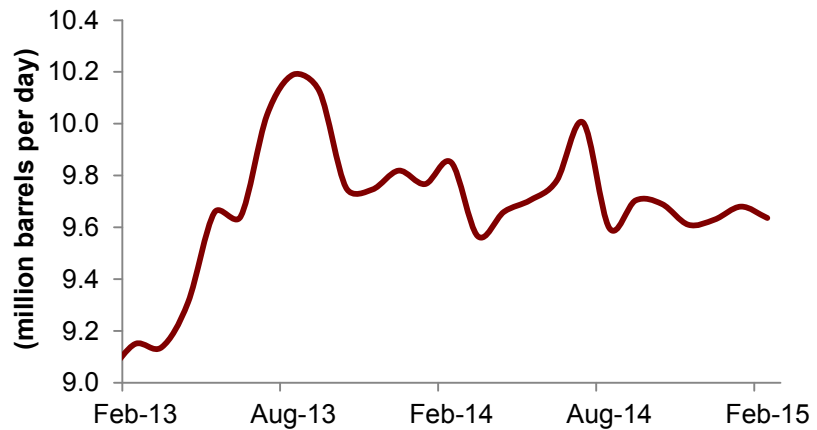


## Oil - Regional

Saudi crude production remained unchanged, month-on-month, in February, at 9.6 mbpd. Violence in Libya and bad weather in Iraq resulted in production from both countries being down, month-on-month. Latest data shows that Saudi exports reached 7.5 mbpd in January.

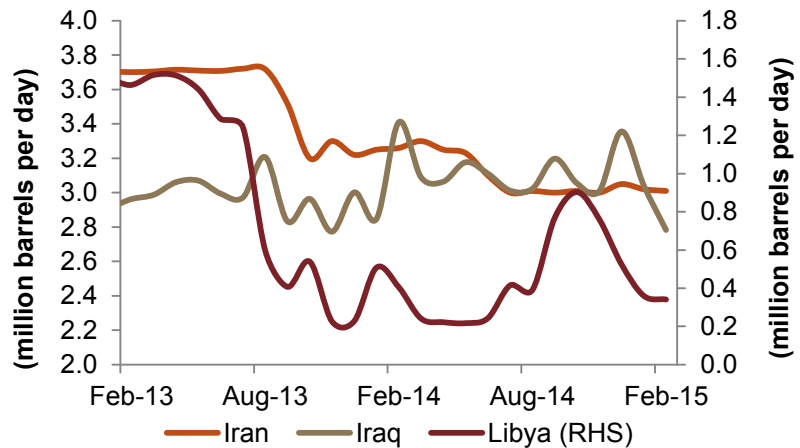
*Saudi Arabia's output is likely to increase in the near future as the Yasref refinery is fully online.*

**Saudi crude production**

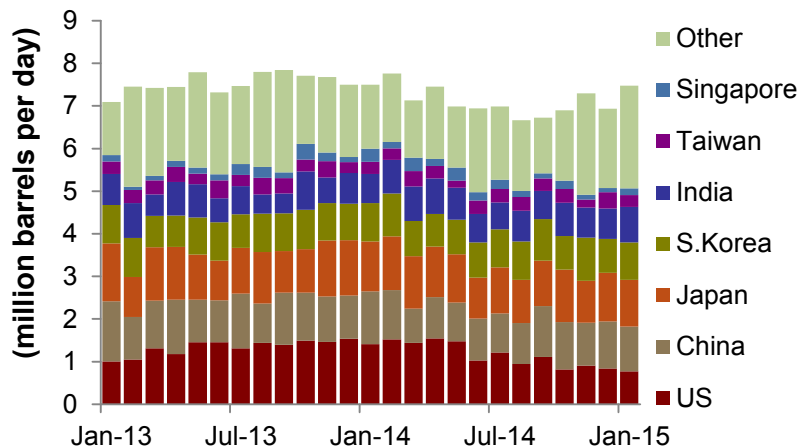


*Bad weather again hampered exports and Iraqi production in February whilst Libyan supply was affected by internal conflict.*

**Iraq, Iran and Libya production**



**Saudi crude exports by country**



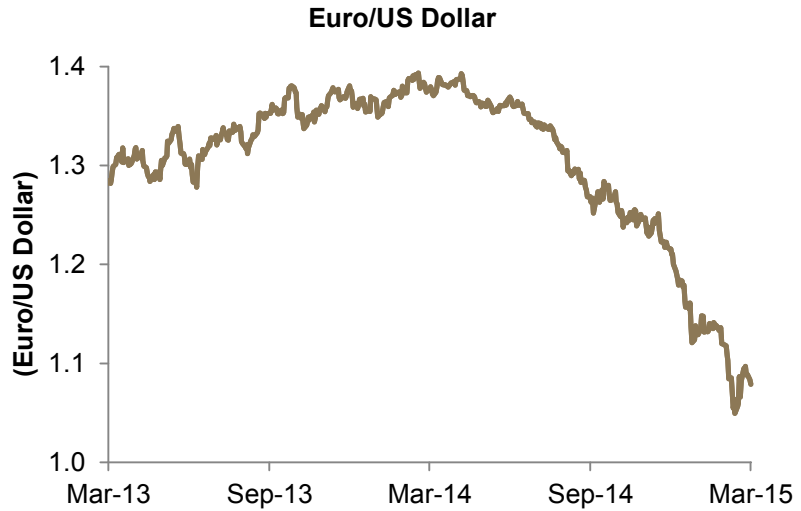
*Latest data for January shows that colder weather and a drop in Iraqi exports led to Saudi exports rising to 7.5 mbpd.*



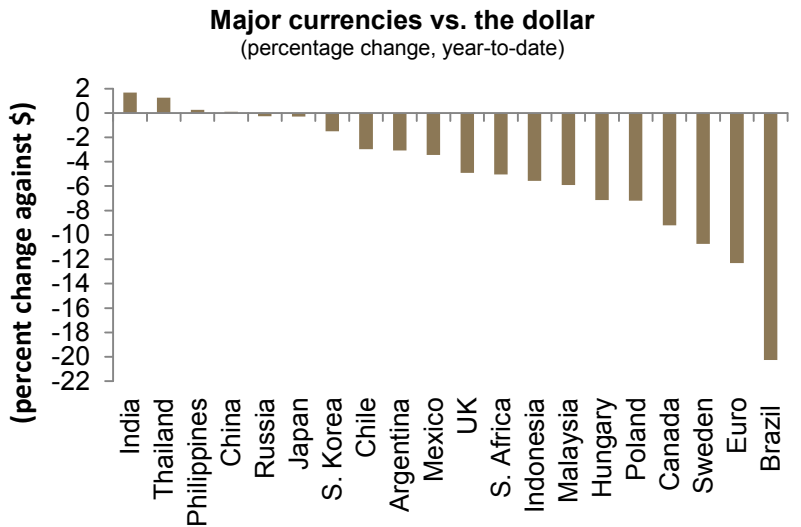
## Exchange Rates

The increased likelihood of the US Federal Reserve raising interest rates in the near future pushed the value of the dollar up against most currencies. The euro's decline against the dollar has been further exacerbated by the start of the monetary stimulus program by the European Central Bank (ECB) in January 2015.

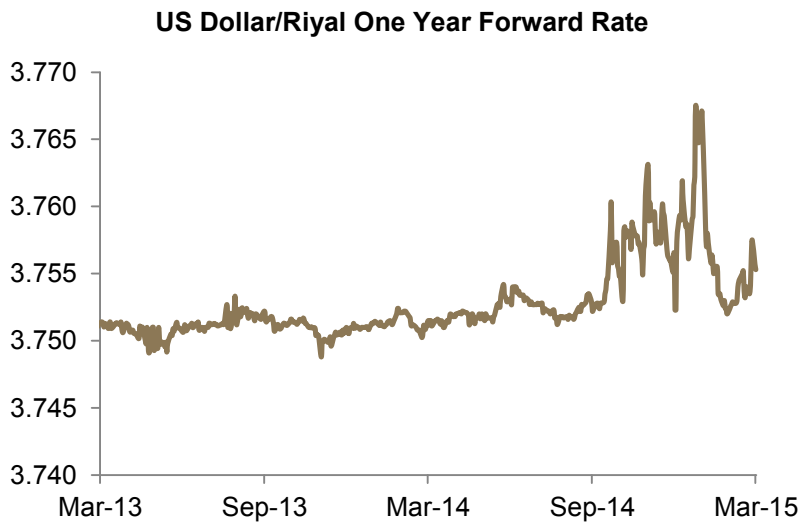
*Diverging monetary policies between the Fed and ECB are pushing the euro towards parity with the dollar.*



*With the Fed interest rate hike expected by mid-year the dollar is gaining against other currencies too.*



*Meanwhile the dollar/riyal one year forward rate rose in March as a consequence of the Saudi-led intervention in Yemen.*



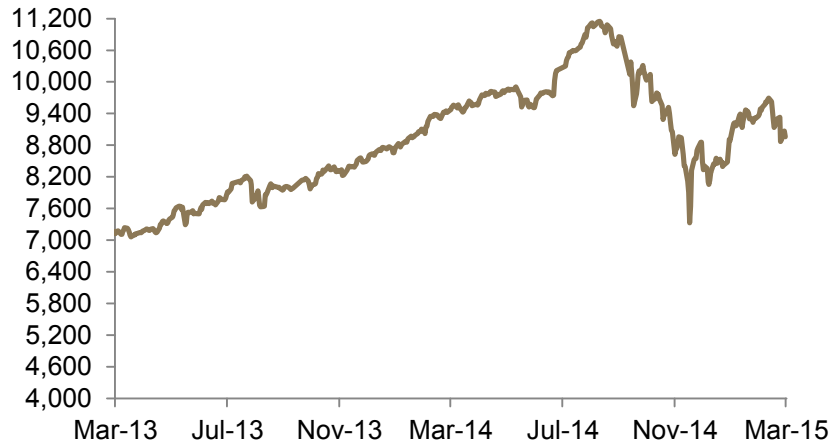


## Stock Market

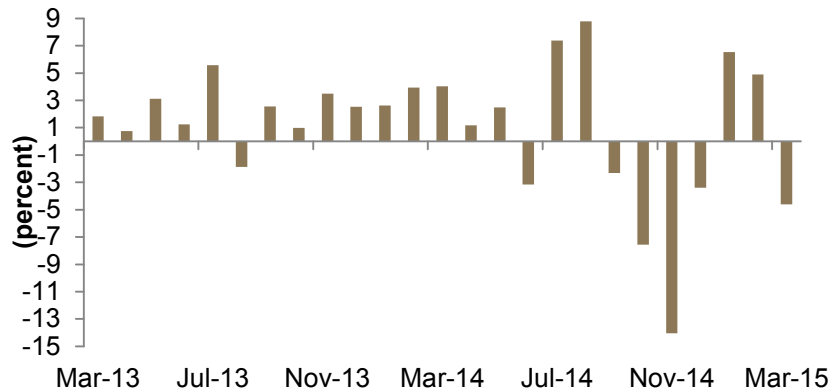
The TASI was down in March as a combination of persistently low oil prices, instability in Yemen and the possibility of sanctions being lifted from Iran had a negative impact on sentiment among investors. The TASI recorded its first drop after two consecutive months of positive performance.

*Although the TASI dropped in March we expect a recovery in April as the opening up of the Tadawul is announced.*

**TASI**

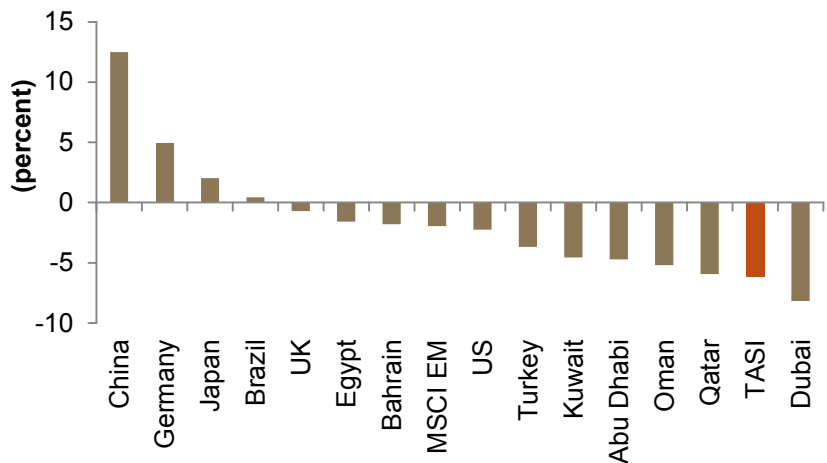


**TASI monthly performance**  
(month-on-month change)



*Performance in the month down by 4.6 percent...*

**Comparative stock market performance**  
(monthly performance, March 2015)



*...but this was the same story across regional markets too.*

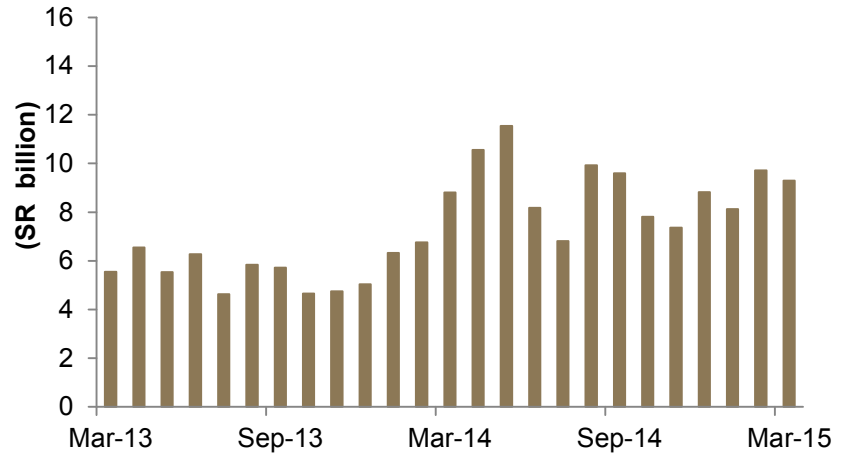


## Volumes

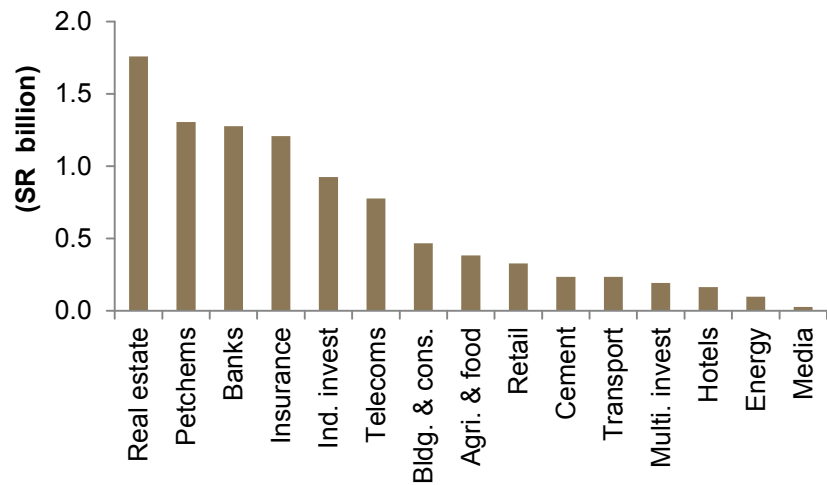
Average daily turnover declined by 4.8 percent in March, reflecting more subdued investor activity related to lower oil prices and uncertainty in regional geopolitical events. Real estate, banks and petchem sectors dominated daily turnover.

*Average daily turnover in March declined to SR 9.2 billion, down from SR 9.7 billion a month earlier.*

**Daily average stock market turnover**

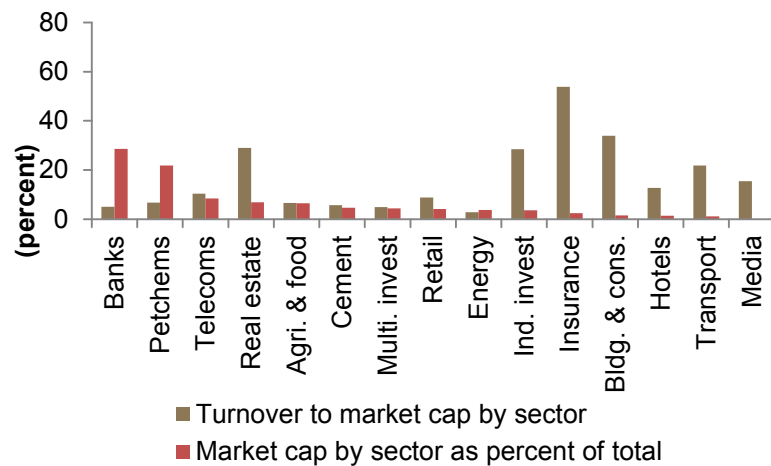


**Turnover by sector**  
(daily average)



*Real estate turnover was the highest as investors reacted to the government's proposal to tax idle land...*

**Turnover as percent of market cap**  
(March, 2015)



*...but smaller sectors still saw higher proportional turnover to market cap.*

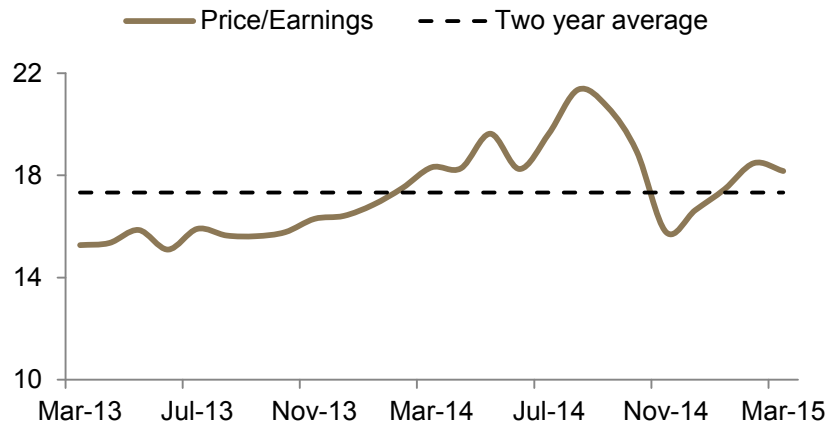


## Valuations

A sell off by investors in the month of March saw the TASI's price-to-earnings (PE) valuation dipping towards the two year average. PE ratios are still comparatively high when compared to major global and regional markets. Although dividend yields improved, month-on-month, they still lagged behind most regional indices.

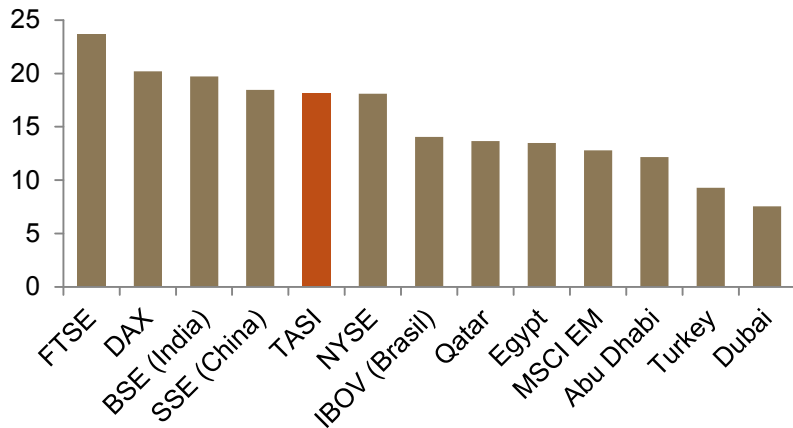
*PE for the TASI dipped marginally to 18.17, compared to the two year average of 17.3.*

**TASI Price-to-Earnings ratio**



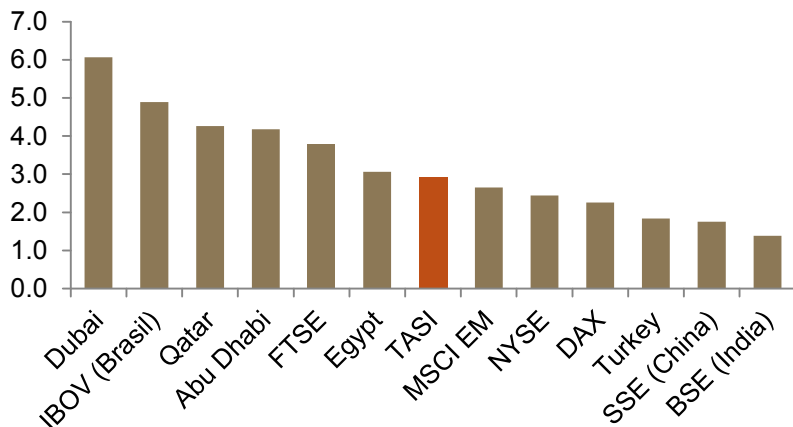
*TASI PE's are in the range of mature and large emerging market indices...*

**Comparative Price-to-Earnings ratios**  
(end of month)



*...this is also the case for dividend yields.*

**TASI Dividend Yield ratios**  
(end of month)

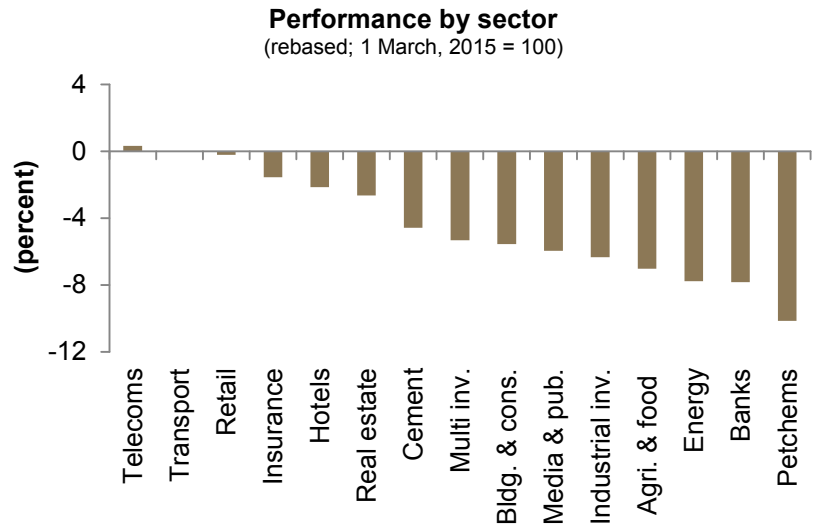




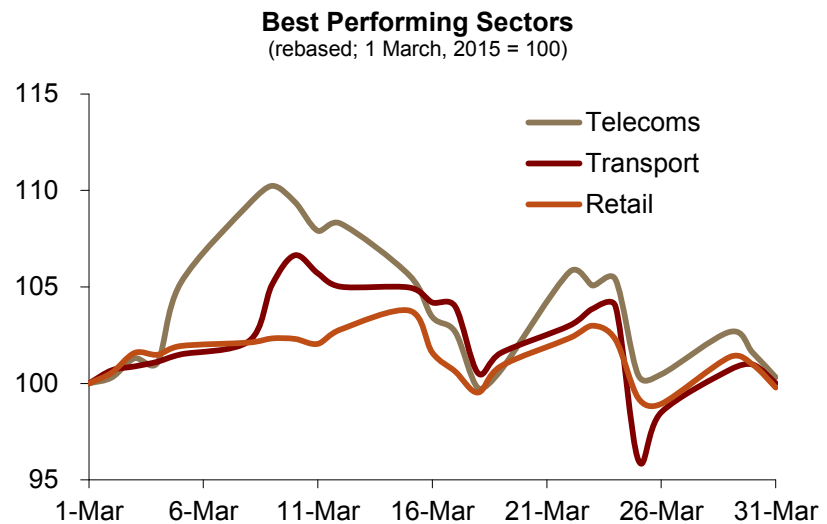
## Sectoral Performance

Most sectors saw negative performance in March due to the sell-off in stocks. Petchems. continue to suffer due to lower oil prices but the general poor performance can be attributed to geopolitical events and dampened expectations over quarterly corporate results.

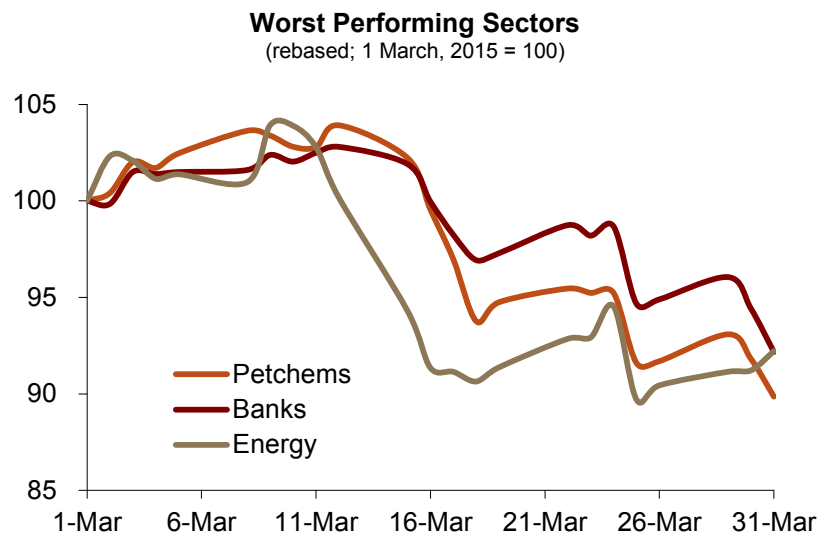
*All but two sectors saw negative performances in March...*



*...with gains in the top performing sectors of telecoms and transport sectors being meagre...*



*...and the poorer performance of the biggest sectors weighing heavily on the TASI as a whole.*





## Key Data

	2008	2009	2010	2011	2012	2013	2014 E	2015 F	2016 F
<b>Nominal GDP</b>									
(SR billion)	1,949	1,609	1,976	2,511	2,752	2,791	2,822	2,548	2,720
(\$ billion)	519.8	429.1	526.8	669.5	734.0	744.3	752.5	679.3	725.4
(% change)	25.0	-17.4	22.8	27.1	9.6	1.4	1.1	-9.7	6.8
<b>Real GDP (% change)</b>									
Oil	4.3	-8.0	-0.1	12.2	5.1	-1.6	1.7	1.6	-0.8
Non-oil private sector	11.1	4.9	9.7	8.0	5.5	7.0	5.7	5.0	4.7
Government	6.2	6.3	7.4	8.4	5.3	5.1	3.7	3.5	3.3
Total	8.4	1.8	4.8	10.0	5.4	2.7	3.6	3.3	2.1
<b>Oil indicators (average)</b>									
Brent (\$/b)	97.2	61.7	79.8	112.2	112.4	109.6	99.4	61.0	68.0
Saudi (\$/b)	94.0	60.4	77.5	103.9	106.1	104.2	95.7	57.0	64.0
Production (million b/d)	9.2	8.2	8.2	9.3	9.8	9.6	9.7	9.8	9.7
<b>Budgetary indicators (SR billion)</b>									
Government revenue	1,101	510	742	1,118	1,247	1,156	1,046	694	644
Government expenditure	520	596	654	827	873	976	1,100	1,091	971
Budget balance	581	-87	88	291	374	180	-54	-397	-326
(% GDP)	29.8	-5.4	4.4	11.6	13.6	6.5	-1.9	-15.6	-12.0
Domestic debt	235	225	167	135	99	60	44	40	38
(% GDP)	12.1	14.0	8.5	5.4	3.6	2.2	1.6	1.6	1.4
<b>Monetary indicators (average)</b>									
Inflation (% change)	6.1	4.1	3.8	3.7	2.9	3.5	2.7	2.5	2.9
SAMA base lending rate (% , year end)	2.5	2.0	2.0	2.0	2.0	2.0	2.0	2.4	3.4
<b>External trade indicators (\$ billion)</b>									
Oil export revenues	284.1	166.9	215.2	317.6	337.5	323.1	265.1	171.8	162.6
Total export revenues	313.5	192.3	251.1	364.7	388.4	376.0	320.6	229.8	226.1
Imports	101.5	87.1	97.4	120.0	141.8	153.2	149.5	160.1	159.3
Trade balance	212.0	105.2	153.7	244.7	246.6	222.7	171.1	69.8	66.8
Current account balance	132.3	21.0	66.8	158.5	164.8	132.6	81.3	-23.1	-25.6
(% GDP)	25.5	4.9	12.7	23.7	22.4	17.8	10.8	-3.4	-3.5
Official reserve assets	442.7	410.1	445.1	544.0	656.6	725.7	732.4	685.1	665.6
<b>Social and demographic indicators</b>									
Population (million)	25.8	26.7	27.6	28.4	29.2	30.0	30.8	31.5	32.3
Saudi unemployment (15+, %)	10.0	10.5	11.2	12.4	12.0	11.7	11.7	11.3	11.1
GDP per capita (\$)	20,157	16,095	19,113	23,594	25,139	24,816	24,454	21,548	22,484

Sources: Jadwa estimates for 2014 and forecasts for 2015-16. Saudi Arabian Monetary Agency for GDP, monetary and external trade indicators. Ministry of Finance for budgetary indicators. Central Department of Statistics & Information and Jadwa estimates for oil, social and demographic indicators.





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